

A REPORT  
TO THE  
**ARIZONA LEGISLATURE**

Accounting Services Division

Compliance Review

# **Santa Cruz Valley Union High School District No. 840**

Year Ended June 30, 2004



**Debra K. Davenport**  
Auditor General

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**DEBRA K. DAVENPORT, CPA**  
AUDITOR GENERAL

**STATE OF ARIZONA**  
**OFFICE OF THE**  
**AUDITOR GENERAL**

**WILLIAM THOMSON**  
DEPUTY AUDITOR GENERAL

October 28, 2005

Governing Board  
Santa Cruz Valley Union High School District No. 840  
900 North Main Street  
Eloy, AZ 85231-2040

Members of the Board:

We have reviewed the District's single audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2004, to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Michael Stelpstra, Accounting Services Manager.

A member of my staff will call the Business Manager in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport  
Auditor General

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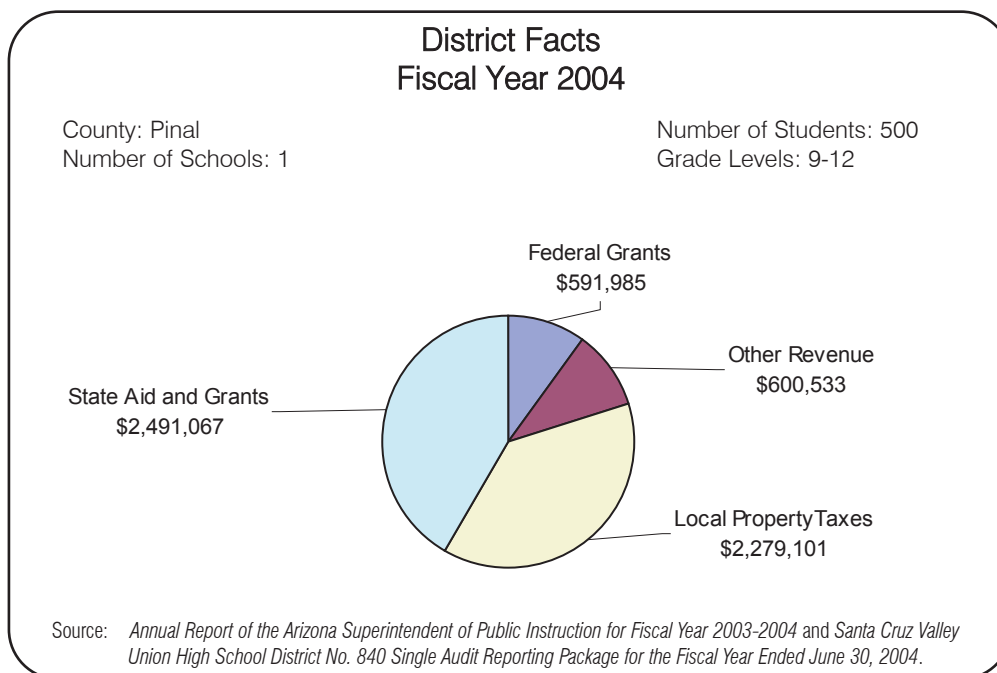


# INTRODUCTION

Santa Cruz Valley Union High School District No. 840 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$5.9 million it received in fiscal year 2004 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's single audit reports and USFR Compliance Questionnaire for the year ended June 30, 2004, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.



# The District should maintain accurate capital assets and stewardship lists

The District's auditors issued a qualified opinion on the District's financial statements because of inadequate capital asset records.

The District has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. In order to protect its investment, effective stewardship requires the District to have accurate lists of these assets and to ensure they are properly accounted for. However, the District's capital assets list was not accurate since it did not include all assets that were acquired in fiscal year 2004 and included many items that cost less than the District's capitalization threshold. Also, some assets on the stewardship list could not be located on the District's premises, and some assets on the District's premises were not included on the stewardship list. In addition, the lists did not include all required information, and the District did not reconcile items added to the lists to capital expenditures annually. As a result of the District's inadequate capital assets records, the District's auditors qualified their opinion on the financial statements.

## Recommendations

The following procedures can help the District ensure that its capital assets are adequately controlled:

- Maintain a capital assets list of all items costing \$5,000 or more with useful lives of 1 year or more. If the District wishes to include items on the list valued at less than \$5,000, the District's Governing Board should adopt a formal written policy to establish a lower capital assets threshold.
- Maintain a stewardship list of all equipment items costing between \$1,000 and \$5,000, or the District's capitalization threshold if less than \$5,000.
- Include all required information for all items on the capital assets and stewardship lists.
- Record capital asset items at actual costs, including ancillary charges such as sales tax, delivery, installation, assembly, and other incidental costs.
- Retain cost documentation, such as purchase orders, receiving reports, and vendor invoices, to support information recorded on the capital assets list, and verify that each asset's cost recorded on the list agrees with the supporting documentation.
- Update the capital assets and stewardship lists at least annually for items acquired, disposed of, or moved to different locations.
- Reconcile items added to the capital assets list during the fiscal year to capital expenditures, and make all necessary corrections.

USFR pages VI-E-2 and 3 and USFR Memorandum No. 196 describe the information that should be recorded on the capital assets and stewardship lists.

The form on USFR page VI-E-13 may be used to document the reconciliation of capital assets additions to capital expenditures.

# The District should ensure the accuracy of its accounting records and effectively monitor transactions

The District's Governing Board depends on accurate information to fulfill its oversight responsibility. The District should also report accurate information to the public and agencies from which it receives funding. To achieve this objective, management should ensure that its accounting records, budget, and annual financial reports (AFR) are accurate and complete, filing requirements are met, and accounting records are retained. However, the District did not accomplish this objective. Specifically, the District did not reconcile its records of revenues, expenditures, and cash balances to the County School Superintendent's (CSS) records. Also, the District made unauthorized transfers between funds, and journal entries were not always approved prior to posting them in the accounting records. In addition, the District did not include all available resources for the Classroom Site Funds in its fiscal year 2004 adopted budget. Further, the District did not accurately report budgeted expenditures, actual revenues and expenditures, and capital asset information on its AFR. Finally, the District did not file required records with ADE and did not retain copies of its budget and AFR signed by the Governing Board.

The District made over \$130,000 in transfers between funds that were not authorized by Arizona Revised Statutes.

## Recommendations

The following procedures can help the District record and report accurate financial information:

- Work with the CSS to obtain revenue, expenditure, and cash balance reports monthly.
- Reconcile the District's cash balances by fund monthly, and its records of revenues, expenditures, and cash balances by fund, program, function, and object code at fiscal year-end to the CSS' records. Investigate all reconciling items and make any necessary corrections.
- Transfer monies between funds only when specifically authorized by statute.
- Require a supervisor to review and approve journal entries before they are posted to the accounting records. Retain documentation for all journal entries, including authorization.
- Carry forward the unexpended budget balances in the Classroom Site Funds to the following year in accordance with Arizona Revised Statutes §15-978.

USFR pages VI-B-8 through 10 include reconciliation procedures.

- Update accounting records for all revenues, expenditures, and capital asset balances before preparing the AFR. Once prepared, have a second employee verify that amounts reported on the AFR agree with the District's adopted budget and accounting records before the AFR is submitted to ADE.
- File required records with ADE and retain a copy of the adopted budget and AFR, signed by a majority of the Governing Board.

## The District's controls over cash receipts and bank accounts should be strengthened

The District receives cash from various sources, including food service sales and student activities, and maintains bank accounts to deposit the related receipts. Because of the relatively high risk associated with cash transactions, the District should have effective internal controls to safeguard cash, ensure that cash is promptly and accurately recorded and deposited in bank accounts, and ensure that bank accounts are used as authorized by statute. These controls require that the District document amounts received, deposit cash receipts timely, and retain support

Poor cash controls left district and student monies susceptible to loss, theft, or misuse.

for checks written. However, the District did not have strong controls over its cash receipts and bank accounts. For example, cash collection reports were not prepared for student activities events to reconcile sales to cash collected. Also, Food Service Fund clearing bank account deposits did not always agree to the cash collection amount on the accompanying cashier's report, and in other cases, documentation could not be located to support the deposits. In addition, monies were not deposited into the Food Service Fund clearing bank account at least weekly, and monies in the account were not remitted to the County Treasurer at least monthly. Further, the District could not always locate documentation to support Maintenance and Operation (M&O) Fund revolving account checks.

## Recommendations

To help strengthen controls over cash receipts and bank accounts, the District should:

### *Student Activities*

- Prepare cash collection or activity reports to document and reconcile cash collections and tickets or items sold. If it is not practical to sell tickets or count items before and after the sale, such as for bake sales, clubs should prepare cash collection reports to document cash collected.

### *Food Service Fund Clearing Account*

- Prepare and retain cash collection reports to document and reconcile sales and cash collections.
- Have a second employee agree the amount of food service cash receipts reported on the cash collection report to the validated bank deposit slip. Investigate all differences, make necessary corrections, and retain the validated bank deposit slips.
- Deposit food service receipts intact daily, when significant, or at least weekly into the Food Service clearing bank account or directly with the County Treasurer.
- Remit monies deposited into the clearing account to the County Treasurer weekly, or at least monthly.

### *M&O Fund Revolving Account*

- Retain documentation, such as check requests, vendor invoices, and other documentation to support disbursements.